Introduction to 3-Statement Modeling

Term	Definition
3-Statement Model	A model that links the three core financial statements: income statement, balance sheet, and cash flow statement.
Accounts Payable	The amount a company owes to suppliers for goods or services purchased on credit.
Accounts Receivable	The amount a company is owed by its customers for goods or services delivered but not yet paid for.
Assumptions & Drivers	Key inputs and assumptions used to drive a financial model, such as historical data and future projections.
Balance	The trade-off between simplicity and complexity in a financial model to achieve accuracy and usability.
Balance Sheet	A financial statement that shows a companyâ€™s assets, liabilities, and shareholders' equity at a specific point in time.
Bottom-Up Analysis	A forecasting method that starts with basic business drivers, such as units sold, and builds up to revenue.
Capital Asset Turnover Ratio	A ratio that indicates how efficiently a company uses its assets to generate revenue.
Capital Assets	Long-term assets used in the production of goods and services, such as machinery or buildings.
Capital Raises Model	A model designed to evaluate capital raising strategies, including debt and equity financing.
Capital Structure	The mix of debt and equity financing used by a company to fund its operations and growth.
Cash Flow Forecast	A projection of future cash inflows and outflows, derived from the balance sheet and income statement.

Cash Flow Statement	A financial statement that provides a summary of cash inflows and outflows over a specific period.
Cost of Sales	The direct costs attributable to the production of goods or services sold by a business.
DCF (Discounted Cash Flow) Model	A valuation method used to estimate the value of an investment based on its expected future cash flows.
Debt-to-Equity Ratio	A ratio that compares the total debt to the total equity of a company, reflecting financial leverage.
Depreciation	The allocation of the cost of a tangible asset over its useful life.
Depreciation Policies	Guidelines that determine how a company allocates the cost of tangible assets over their useful life.
EBITDA	Earnings before interest, taxes, depreciation, and amortization; a measure of a company's profitability.
Error Messages and Alerts	Warnings in Excel that indicate potential issues in a financial model.
Excel Settings	Options within Excel that can be configured to enhance model accuracy and usability.
Financial Forecasting	The process of projecting future financial performance based on historical data and key drivers.
Financial Statements	Reports that summarize the financial performance and position of a company, including income statement, balance sheet, and cash flow statement.
Financing Activities	Cash flows related to funding a business, such as issuing shares, raising debt, or paying dividends.
Forecast Revenues Down to EBITDA	A process of forecasting revenues, direct operating expenses, and indirect operating expenses to estimate EBITDA.
Forecasting Financial Statements	The process of projecting financial statements such as income statement, balance sheet, and cash flow statement based on historical data and assumptions.
Forecasting Methods	Approaches used to predict future financial performance, such as regression analysis or historical trends.

Function	The practical operation of a financial model, ensuring it provides meaningful insights.
Gross Margin	The difference between revenue and cost of goods sold, expressed as a percentage of revenue.
Income Statement	A financial statement summarizing revenues, expenses, and profits or losses over a period of time.
Indirect Operating Costs	Costs that are not directly tied to production, such as marketing, administration, and overhead expenses.
Inputs (Assumptions)	Identified data points or assumptions that serve as the foundation for calculations in the model.
Inventory	Goods and materials a business holds for sale or use in production.
Inventory Days	The average number of days a company holds inventory before it is sold.
Leverage Buyout (LBO) Model	A model used to assess the feasibility of acquiring a company using significant amounts of borrowed money.
Long-Term Liabilities	Obligations that a company expects to settle after one year, such as loans or bonds.
Merger Model (M&A)	A financial model used to evaluate mergers and acquisitions, including synergies and financial outcomes.
Net Cash Movement	The net result of cash inflows and outflows over a specific period of time.
Operating Activities	Cash flows generated from core business operations, such as revenues and operating expenses.
Option Pricing Model	A model to estimate the value of options and other financial derivatives based on certain assumptions.
Outputs (Graphs & Charts)	The final visual representation of the modelâ€™s results, used for decision-making.
Payable Days	The average number of days a company takes to pay its bills and invoices.

PP&E (Property, Plant, and Equipment)	Tangible fixed assets that are used in a companyâ€™s operations to generate revenue.
Processing (Calculations)	Steps or formulas used to derive outputs from the inputs in a financial model.
Receivable Days	The average number of days a company takes to collect payment from its customers.
Sanity Checks	A quick review to ensure that the assumptions and drivers in the model are reasonable.
Scenario Analysis	An analysis that examines the impact of different scenarios on a businessâ€™s value or performance.
Sensitivity Analysis	An analysis to evaluate how sensitive a model's outcomes are to changes in assumptions or drivers.
SG&A (Selling, General & Administrative)	Operating expenses related to selling, general, and administrative functions of a business.
Sum of the Parts Model	A valuation model that sums the value of different divisions or segments of a company.
Supporting Schedules	Detailed schedules that break down specific components such as PP&E, debt, and working capital.
Top-Down Analysis	A forecasting method that starts with the total addressable market and works down to revenue based on market share.
Trace Precedents and Dependents	Excel tools used to identify the source and impact of specific formulas or inputs in a model.
Value	The assumptions in a model that determine whether it provides accurate and useful information.
View Formulas	An Excel feature that allows users to display formulas instead of results in cells, aiding in auditing.
Working Capital	The difference between current assets and current liabilities, which affects a company's liquidity.
Working Capital Equations	Formulas used to calculate key financial metrics such as receivable, payable, and inventory days.